

THE PUBLIC SCHOOL FUNDING FORMULA

- Enacted by the Legislature in 1974, the New Mexico Public School Funding Formula is based on a model developed by the National Education Finance Project in the late 1960s and early 1970s.
- The system supports the Legislature's policy that all students are entitled to an equal educational opportunity despite differences in local school district wealth.
- The formula is student driven and recognizes different costs for various educational programs.
- Designed to distribute operational funds to school districts in a noncategorical manner, the formula also provides for local school district autonomy. Formula dollars received by local districts are not earmarked for specific programs. Within statutory and regulatory guidelines, school districts have the latitude to spend their dollars according to local priorities.
- The establishment of educational need by each school district (based on the number of students enrolled on an average of the prior year's 80th and 120th days and participating in legislatively defined programs as described beginning on page 3) is the first function of the equalization formula. The formula uses cost differentials to reflect the relative costs incurred in providing these programs, making individual student needs the focal point of the formula.
- The distribution of funds for each educational program is determined by the calculation of program units. Program units are the product of the number of students enrolled in a given program multiplied by the cost differential assigned to that program in statute. The program units are multiplied by the Training and Experience (T&E) Index in each district to adjust for instructor education and experience.
- The following factors are then added to the adjusted program units (which are those units multiplied by the district's T&E Index) if they are applicable:
 - adjustments for school and district size, rural isolation, creation of new districts, at risk, enrollment growth, and National Board for Professional Teaching Standards (NBPTS)-certified teachers.
 - The attached table, "State Equalization Guarantee Distribution Formula," provides a graphic illustration of the calculation of units and determination of district revenues.

Important Funding Formula Terms:

- **Program Cost** – The amount of money assumed under the formula to be necessary for a given district with a particular configuration of students and educational programs to provide educational services.
- **Unit Value** – A dollar amount calculated by dividing the legislative appropriation by the total number of units statewide:

$$\text{Unit Value} = \frac{\text{Program Cost}}{\text{Total Statewide Units}}$$

- **State Equalization Guarantee** – The largest single revenue source for public schools, which typically accounts for more than 80 percent of any district’s operational revenues. This guarantee represents an attempt to assure all public school students access to programs and services appropriate to their needs despite local geographical or economic conditions. The distribution is noncategorical in nature and encourages local priority initiatives through the absence of categorical funding.
- **State Equalization Guarantee Distribution** – The amount of money distributed to each school district to ensure that the school district’s operating revenue, including certain local and federal revenue, is equal to the school district’s program cost. In making the distributions, the state takes certain credits and deductions, as applicable to each district:
 - The state takes credit for 75 percent of the local .5-mill levies and 75 percent of federal forest reserve funds and most Impact Aid (formally PL 874) funds, with the exception of Impact Aid funds for special education or for students living on Indian lands, which remain in the local districts. School districts retain 25 percent for operational or other purposes.
 - If a district has excess cash balance as determined by a statutory formula, the state also takes credit up to a specific percentage of the estimated limit.
 - Districts that participate in the Utility Conservation Program have an additional amount subtracted from the program cost; that amount is held in a separate fund to be used solely for that program.
 - In addition, participating districts also have subtracted from program cost 90 percent of their certified portion of the debt service payments on bonds authorized pursuant to the *Energy Efficiency and Renewable Energy Bonding Act*.
- **“Save Harmless”** – In determining program cost for a small school district or a charter school with a membership of 200 or fewer students, units are calculated using either the average of the MEM on the 80th and 120th days of the prior year or the 40th day MEM of the current year, whichever is greater. When the number of units calculated on the basis of current year MEM is greater than the number of units calculated on the basis of the prior year averaged MEM, the difference is referred to as “save harmless.”

A Little Bit of History:

In the past, states relied primarily on local property taxes to fund both the operational and the capital outlay needs of their school districts. New Mexico decided more than 30 years ago that a change was needed. Since its enactment in 1974, the Public School Funding Formula has been the policy method by which the New Mexico State Legislature continues to provide equity in funding for all students relying upon the wealth of the state rather than the property tax wealth of individual districts. In turn, other states have followed New Mexico’s example. Now, that equity is no longer a primary concern, New Mexico, as are other states, is examining what constitutes an adequate educational program and the amount of funding sufficient to meet the educational needs of its most precious resource, its children.